



December 1989 Monthly Survey

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Surveys of Consumers

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Overall Sentiment Remains Unchanged Buying Attitudes Weaken

Index Sags

The Index of Consumer Sentiment was 90.5 in the December 1989 survey, insignificantly below the 90.9 recorded in November 1989 and the 91.9 in December 1988. Although it still remains at a relatively favorable level, the December Index reading was the lowest recorded since the end of the 1987.

Buying attitudes has been the major source of weakness during the past three months, while personal financial attitudes have remained largely unchanged.

Among families with incomes of \$40,000 or more, the Index rose to 104.1 in December 1989 from 100.5 one month earlier and 99.5 one year earlier.

Components Reflect Current Economic Slowdown

The Index of Consumer Expectations, the component of the Index of Leading Indicators, edged upward in the December 1989 survey, rising to 85.5 from 84.3 in November, duplicating the December 1988 reading. The small December improvement was due to more favorable assessments of long term prospects for the economy.

In contrast to the uptick in expectations for future change, evaluations of current economic conditions declined. The Current Conditions Index fell to 98.2

in December 1989, from 101.2 one month earlier and 102.0 one year earlier. The December 1989 reading was the lowest level recorded since 1983. Indeed, the Current Conditions Index has fallen below 100 in only two monthly surveys during the past six years—the other time was in the November 1987 survey following the stock market crash. The major source of this decline has been growing weakness in attitudes toward buying condition for large household durables.

Price Concerns Weaken Buying Attitudes toward Household Durables

The proportion holding favorable attitudes toward buying conditions for furniture, appliances, and home electronics fell to 65 percent in December, from 67 percent one month earlier and 75 percent three months earlier. The year-end 1989 figure was the lowest recorded since the start of the current expansion.

Although references to the availability of low and discounted prices have remained unchanged in the December survey from three months earlier, more families viewed current prices as too high and a reason to postpone their purchases. Among all families, 34 percent cited the availability of low or discounted prices in December, unchanged from the September reading; references to high prices, however, rose to 14 percent, twice the 7 percent recorded in September.

Vehicle Buying Attitudes Post Small Decline

Favorable evaluations of buying conditions for vehicles were held by 58 percent of all families in the December 1989 survey, down from 62 percent one month earlier and 61 percent one year earlier. Although the recent decline was relatively small, it left the December reading at the least favorable level recorded during the past two years.

At the close of 1989, consumers were more likely to report the availability of price discounts than at year-end 1988—38 percent mentioned the availability of price discounts in December 1989, up from 26 percent in December 1988. But consumers were less concerned with the possibility that prices would increase during the year ahead—11 percent in December 1989, down from 17 percent one year earlier. Thus, not only did consumers more frequently expect the continued availability of discounts, consumers less often thought it would be best to advance their purchases to take advantage of current discounts.

The availability of lower interest rates on the purchase of new vehicles was reported by 13 percent of all families in the December 1989 survey, between the 15 percent recorded one month earlier and the 11 percent recorded one year earlier. Interestingly, the December 1989 survey did not reflect any improvement due to the latest round of interest rate incentives. Most likely this was due to the short time period between the initial announcement of the incentive program and the completion of interviewing (by December 21st). The January survey will reveal whether this was the case, or if the interest rate discount was simply judged too small or too limited to take special notice.

Home Buyers Await Further Declines in Mortgage Rates

Favorable home buying attitudes were held by 64 percent of all families in the December 1989 survey, although largely unchanged from the 63

percent recorded one month earlier, it was significantly below the 70 percent recorded three months earlier.

The primary reason for the decline since the September 1989 survey has been less favorable evaluations of mortgage rate trends. In the December 1989 survey, 26 percent of all families cited the availability of lower mortgage interest rates, down from 36 percent in September 1989. Nonetheless, these views on mortgage rates represent an improvement over those of a year earlier, when 19 percent reported the availability of low mortgage rates. Moreover, at the close of 1989, few consumers thought that it would be better to borrow-in-advance of rising rates—reported by just 8 percent in December 1989, down from 21 percent in December 1988.

Personal Finances Remain Favorable

Consumers' evaluations of their personal financial situation remained largely unchanged in the most recent survey. Among all families in the December 1989 survey, 41 percent reported that their financial situation had improved, just between the 42 percent recorded one month earlier and the 39 percent recorded one year earlier.

Fewer families reported income increases and fewer families reported income declines, leaving net income trends largely unchanged. Income increases were reported by 31 percent of all families in December 1989, just below the 32 percent recorded in November and the 35 percent recorded at year-end 1988. Declines in family incomes, however, were also reported less frequently. At year-end 1989, just 11 percent of all families reported income declines compared with 17 percent at year-end 1988.

Consumers continued to view the outlook for their finances in positive terms. At year-end 1989, 37 percent of all families expected their financial situation to improve during 1990. This was only slightly below the 39 percent that expected

improved finances during 1989. Only a very small proportion of American families expected their financial situation to worsen during 1990 (8 percent), while half of all families expected their financial situation to remain the same considering changes in both incomes and prices.

Economy Expected To Continue On Present Slow Growth Path

Consumers' assessments of recent changes in the national economy improved at year-end. The proportion that thought the economy had improved during the past year rose to 45 percent in December from 42 percent in November, and the proportion that expected further improvement during the year ahead rose to 24 percent in December from 18 percent a month earlier. The majority, however, continued to expect no significant change in the performance of the national economy (55 percent in the December 1989 survey).

Good times financially in the country as a whole during the year ahead were expected by 49 percent of all families in the December 1989 survey, just below the 50 percent recorded in November and the 52 percent recorded in December 1988. Over the longer term, 39 percent of all families expected good times financially over the next five years, between the 38 percent recorded one month earlier and the 41 percent recorded one year earlier.

Inflation Expectations Hold Steady

Consumers expected an annual rate of inflation of 4.6% during the year ahead in the December 1989 survey, down insignificantly from the 4.7% recorded in the prior two monthly surveys. Although inflation expectations have remained largely unchanged during the last half of 1989, they are at lower levels than in late 1988.

Interest Rate Expectations Post Small Improvement

Increases in interest rates were expected by 46 percent of all families in the December 1989 survey, down from 52 percent in November and 74 percent in December of 1988. Interest rate declines were expected by 25 percent of all families in the December 1989 survey, the highest proportion to expect declines in more than two years. Most of this improvement was recorded by mid 1989, with interest rate expectations posting only small improvements since then.

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The December 1989 survey included 500 completed interviews conducted between December 1 and December 21, 1989.